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GENERAL

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1. Report on progress of US policy toward Yugoslavia--In  
commenting on US policy towards Yugoslavia, US Embassy  
Belgrade expresses the view that marked progress has  
clearly been made toward the establishment of a Yugoslav-  
Western working relationship based on mutual advantage  
and mutual respect for rights and independence. However,  
the Embassy indicates, in discussing the serious concern  
of the Yugoslavs over the continuance of US financial help,  
that if patience is not exercised in establishing a satis-  
factory economic relationship with Yugoslavia, there is  
danger that US-Yugoslav relations will become "so soured"  
that the US might lose some of the "extraordinary political  
benefits" already won through the gradual reorientation of  
Yugoslavia toward the West.

Concerning Yugoslavia's relations with its neighbors,  
the Embassy reports a genuine Yugoslav desire to improve  
relations with both Greece and Italy and points to hopeful  
signs that Yugoslavia and Greece can make mutually profit-  
able progress in normalizing their relationship; the Embassy  
feels, however, that the Italians may be inclined to hold back  
from a broad effort to improve relations with Yugoslavia.

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2. Australians set back at Commonwealth Conference--US  
Ambassador Jarman in Canberra estimates that the recent  
Commonwealth meeting on Southeast Asia will have a salutary  
psychological effect on Southeast Asia and will complement  
the effect of US policy for the area. Commenting that the  
conference was a failure from the Australian point of view,  
he reports that the Australian objective was to force agree-  
ment on a three-fold plan embracing Commonwealth technical  
aid, the provision of emergency relief supplies and the setting  
up of a longer range credit scheme, a program which was

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successfully opposed by the UK and Canada on the grounds that it was economically unrealistic. Jarman observes that Australian conduct at the conference strengthens the view of the Embassy that the Government is determined to establish a foreign policy which will be independent of the UK and the entire Commonwealth wherever general agreement cannot be obtained.

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